Regulatory Impact Statement

Changing the student loan administration fee

Agency Disclosure Statement

- This RIS has been reviewed by the Ministry of Education. The quality of the analysis meets quality assurance standards.
- A constraint of the analysis is that it has been developed without consultation with student groups because it is part of the Budget process.
- Further work is still to be undertaken to explore consumer contract issues in relation to the fee and the nature of any legislative amendments that may be needed.

Executive Summary

1. Each year that a borrower establishes a new loan account they are charged a $50 administration fee by MSD. This administration (or establishment) fee has not been increased since the scheme was established in 1992. Student loan accounts are taken out for a maximum of 52 weeks. After this time a new loan account (which attracts another fee) needs to be taken out, and it is this may lead to two MSD fees being charged in the same tax year.
2. A number of options have been explored to recover more of the costs of operating the Student Loan Scheme which include increasing the current MSD student loan establishment fee and the introduction of an Inland Revenue administration fee to cover more of the ongoing costs of administering student loans. The aim is to reflect commercial banking practices as much as possible.
3. As part of Budget 2010, the government intends to:
    a. increase the MSD administration fee from $50 to $60 from 1 January 2011
    b. introduce an annual administration fee of $40 for all loans held by Inland Revenue. This fee would not be charged if an MSD $50 fee has been charged in the same tax year.
4. Inland Revenue will charge the fee at the end of each tax year, with the first fee being charged as at 31 March 2012 for the 2011/12 tax year.
5. Implementation of this change will require amendment of the Student Loan Scheme Act 1992, and changes to both fees may require amendment of the Credit Contracts and Consumer Finance Act 2003.

Status Quo and Problem

6. Currently an administration fee of $50 is charged for each 'new' loan that is taken out with MSD. Each loan drawn down is currently treated as a separate account. Each year, the loan account is transferred to Inland Revenue where loans are consolidated.
7. The amount charged through the $50 MSD administration fee amounted to $9.6m in 2008/09[1]. The MSD fee is added to the overall loan balance and is not collected separately.
8. The estimated costs of administering the student loan scheme for 2008/09 year are as follows:

[1] Source: Student Loan Scheme Annual Report, 2009.

- $17m for MSD (which establish the loan accounts)
- $22m for Inland Revenue (IR) (which is responsible for the assessment and collection of all loan accounts (including those of past borrowers).

9. The administration fee has not been increased since the Student Loan Scheme was established in 1992. The subsidy inherent in the fee has therefore increased over time.

Objectives

10. The objective of this policy change is to recover more of the costs of administering the Student Loan Scheme. The Government wants to reflect commercial practices by charging both an establishment fee (the MSD administration fee) and a fee to recover some of the ongoing costs of administering the loan (an annual Inland Revenue fee).
11. Because the IR fee will not be collected separately, but added to the loan balance, as happens with the current MSD administration fee, it will effectively slightly extend the length of time to repay the loan.

Regulatory impact analysis

12. The following options have been investigated:

	Options	Pros	Cons
1	$60 MSD establishment fee, and $40 IR administration fee A MSD fee and IR fee would not both be charged in the same tax year	• Moves closer to arrangement with banking sector • May encourage some borrowers to repay their loans faster to avoid the fee • Not as complex as 2 and 3 • Cost neutral for MSD fee but provides savings for the Crown	• Would not be able to recover any collection costs for existing loans with IR in the tax year in which a borrower is charged an MSD fee • Some borrowers may be charged two MSD fees in same tax year (as they do currently). However, borrowers will not face fees from two different agencies in one tax year. • Legislative credit contract issues need to be worked through • Legislation needed
2	$100 (one-off) MSD fee, and $40 IR administration fee	• Moves closer to arrangement with banking sector • May encourage some borrowers to repay their loans faster to avoid the fee	• May encourage small amounts of unnecessary borrowing after the initial year • Complex to administer. Likely to require data-matching to identify pre-2000 borrowers and identify when someone has repaid their loan and would therefore pay the

	Options	Pros	Cons
			establishment fee for a new loan. This would involve the Privacy Commissioner • Credit contract issues need to be worked through • Legislation needed • MSD has costs establishing loans each year and a one-off cost would not reflect the costs of establishing further loan(s)
3	$50 (one-off) MSD fee, and $40 IR administration fee	• As above. • The 'one-off' $50 MSD fee option has slightly more cost than the 'one-off' $100 MSD fee (option 2)	• As above.
4	No MSD fee, but a $40 IR administration fee	• As above. • Less complex to administer as only one agency would charge a fee	• More likely to encourage borrowing for small amounts of study than the other options • Less like banking practice as no establishment fee charged.

Consultation

13. The Ministry of Social Development, Inland Revenue Department and the Treasury and Commerce Commission were consulted in the development of the policy work around these options.

Conclusions and recommendations

14. The preferred option is option 1: charging a $60 MSD loan establishment fee and introducing a $40 IR administration fee. Both fees would not be charged in the same tax year. This option is simpler to administer than options 2 and 3 (which are likely to require costly data-matching arrangements and privacy issues). This option also more closely mirrors banking practice than option 4.

15. The IR fee will:

- be an annual fee of $40 charged as at the last day of the tax year – 31 March
- be a fixed fee (i.e. it would not be adjusted annually, although it could be reviewed from time to time)
- be a flat fee
- be added to the loan balance, rather than to the repayment obligation
- be charged on any loans that are unpaid as at the application date for the fee each year
- not be charged on any loan that had been fully repaid during the tax year
- not apply to loan balances of less than $20 (as these are automatically written off)

- not be subject to any discretion to waive it
- be introduced as part of the new IR student loan management system currently under development for the 2011/12 tax year.

16. Inland Revenue will charge the fee as at the end of each tax year (31 March). As soon as practicable after this date Inland Revenue will look back and identify whether MSD have charged an administration fee or not. If a MSD fee has been charged no IR fee will be applied.
17. The first fee will be charged as at 31 March 2012 for the 2011/12 tax year. This avoids the need for a transitional arrangement as the new student loan management system and legislation will be in place.
18. This policy will affect everyone who has a current student loan (in 2011/12 tax year about 200,000 borrowers will be charged the MSD fee and over 500,000 borrowers will be charged the IR fee). No borrower will be charged a fee from both agencies in the same tax year.

Implementation

19. Further work is needed in order to implement the proposed changes. In particular, further work is required to ensure either compliance with the Credit Contracts and Consumer Finance Act 2003, or alternative legislation provisions.
20. Legislative amendments will also be needed to the Student Loan Scheme Act 1992 for the IR administration fee. The necessary legislative amendments could be made to the Student Loan Scheme Amendment Bill that is to be introduced in April/May this year (possible at the Committee of the Whole stage) or a separate Bill may need to be considered. Such a Bill would need to be introduced by the end of this year.
21. The Ministry of Education, in consultation with Inland Revenue and other relevant agencies, will report back to Cabinet by the end of June on the changes needed to the Student Loan Scheme Act 1992 and the Credit Contracts and Consumer Finance Act 2003, and options for a legislative vehicle to make the appropriate changes to these Acts.

Monitoring, evaluation and review

22. There are no plans to monitor or evaluate this change in policy.
23. Inland Revenue will be able to report on how much has been charged in administration fees to loan balances for each tax year. However, because the fees are included in loan balances for each tax year, IR will not be able to report on the amount collected each year from borrowers.